

We deeply appreciate Councilor Gentile's breadth of experience and commitment to the financial stability and security of the City of Newton.

Case in point, on April 20 of 2011, Councilor Gentile as the Chair of the Finance Committee voted unanimously with his colleagues, like the then Vice Chair of the Finance Committee, Councilor Fuller, to approve the City of Newton Financial Management Guidelines, which can be seen [here](#). The Guidelines were created by both Councilors Gentile and Fuller working incredibly closely with the Chief Financial Officer, Maureen Lemieux, who remains in this position today.

These Financial Management Guidelines have served the City of Newton extremely well over the years. In following them, we have maintained our Aaa bond rating, built up our Rainy Day Stabilization Fund to better align with the Department of Revenue guidelines, leveraged our bond rating by securing optimal borrowing interest rates for our large capital projects, and have come through several financially challenging periods stronger than ever. We have also followed these Guidelines by investing in our pension system, and we have "*avoided using one-time revenue sources for ongoing expenditures*" which is language taken directly from the Guidelines Councilor Gentile helped write and was unanimously endorsed with his peers.

Our approach with regards to Free Cash, Overlay, Rainy Day, and the rest of our financial resources are in line with these guidelines.

**Free Cash** - The \$28.8 million Free Cash that was certified this year by the State Department of Revenue includes a large one-time infusion of funds in unexpected revenue from a contested property value case involving Eversource (\$8M) and early payment of a "Payment in Lieu of Taxes" from a non-profit organization (\$2.2M).

The City pays close attention to the amount and uses of Free Cash. The City consciously and transparently integrates the use of free cash into our budget and financial strategy.

Free cash in the Fuller Administration is used in a prioritized manner in keeping with the City's Financial Management Guidelines.

- First, a maximum of \$1.5 million will be used as a general revenue source for the ensuing year's operating budget.
- Second, Free Cash may be used to replenish Reserve Funds depleted in the previous year.
- Third, a minimum of forty percent (40%) of the remaining certified Free Cash will be put in the Rainy Day Stabilization Fund until the Rainy Day Stabilization Fund reaches its target level. (The City reached its target level several years ago, but as the operating budget increases, the City must add monies into the Rainy Day Fund to maintain the 5% funding level if interest earned on this fund is not sufficient to do so.)

- Fourth, any additional Free Cash will be used for one-time, non-recurring expenditures.
- When free cash funds are still available after the first three priorities, as they are this year, we prioritize one-time capital expenditures, particularly those with bonding terms of 10 years.

This year, the Administration is proposing that Free Cash be used to fund the following one-time capital expenditures:

- Replacement of the two turf fields at Newton South High School (\$3.2M),
- Large vehicle/construction equipment purchases (\$2.0M),
- Replacement of Fire Department Engine 7 (\$800K),
- Purchase of 2 trackless sidewalk plows (\$300K), and
- Contribution toward the Horace Mann addition, contingent upon the passage of the Operating Override (\$7.5M).

**Covid Relief (ARPA) Funds** - Federal Aid during the pandemic in the form of ARPA, ESSER, and CARES funds were instrumental in sustaining Newton Public Schools, and critical programs and services provided by the City of Newton throughout the pandemic.

Notably, despite the significant amount of federal funds received by the City, our revenue losses from the pandemic were even greater.

After listening carefully to the residents and businesses in Newton, we made critical and significant investments in our direct Covid response, schools, housing and human services, financial recovery, critical infrastructure, economic recovery and village centers. After investing in these important initiatives, we have held \$4.9M in reserve in the event that other Covid-related expenses or initiatives become clear needs in the coming years.

To see how we invested ARPA funds together, please click [here](#).

Altogether, the investment of the ARPA funds will be transformative for all Newtonians:

- We are helping residents facing hardships and people disproportionately impacted by the pandemic – too often people of color – with both short-term emergency housing support and longer- term economic stability and mobility initiatives.
- Four homes were bought to add to our stock of affordable housing.
- Rapid antigen tests were purchased.
- Ventilation systems were improved.
- Chromebooks were provided to students.
- We supported our littles ones as they emerged from the isolation of the pandemic with a much larger, fully renovated Children’s Room at the Newton Free Library.

- A new community garden is fast taking shape on the north side of the City.
- Trails were improved and trails and playgrounds became more accessible.
- Athletic fields were improved with lighting.
- More trees were cared for, something that proved particularly timely with the extreme drought we've been through this summer.
- Our employees received stipends for their extraordinary service during the pandemic.
- Roads were repaired.
- Artists were supported.
- A new Senior Center was designed and additional green space for the users and the Newtonville community was acquired.
- We moved forward with architects to rebuild, renovate or improve four elementary schools – Countryside, Lincoln-Eliot, Horace-Mann and Franklin.

**Tax Overlay Funds** - Cities and towns by state law must maintain an account to fund anticipated property tax abatement, exemption and receivable exposure for all fiscal years. This is referred to as the "Overlay" account. As part of the annual budget and tax rate process, the Board of Assessors must analyze the balance in the overlay account and determine whether it is adequate to fund anticipated property tax abatements, exemptions and receivables during the upcoming fiscal year in addition to existing abatement, exemption and receivable exposure for all previous fiscal years, including all tax relief and tax deferral programs.

As a general rule, each year the City of Newton sets aside approximately one percent (1%) of the property tax levy for this reserve.

Currently, the City's Overlay account has a higher than usual balance because of higher than usual potential tax abatements.

More specifically, Eversource has been appealing their assessed value from the City of Newton (as well as Boston, Brookline, Cambridge and Springfield) since FY2012. Eversource has lost cases with Boston and Springfield but had continued to withhold payment and appeal to higher courts. The Board of Assessors have set aside a cumulative amount of \$8 million over the last decade for a potential tax abatement, depending on the outcome of the appeal. However, last spring the City received full payment of the principal and interest for Fiscal Years 2013 through 2022 from Eversource totaling approximately \$12.7M. As the City already had set aside \$8 million in the Overlay fund, \$8M of the \$12.7M was transferred to Free Cash and is available for investments. The remaining \$4.7M from the Eversource payment (as well as the \$8M already accumulated in the Overlay Fund) remain until the appeal process is resolved. (The City has kept the \$4.7M to pay the interest to Eversource if the appeal is resolved in their favor.)

In other words, Eversource has not withdrawn their appeals against the City of Newton. Therefore, their case continues to move forward. Should Eversource prevail,

the City of Newton will be responsible for returning all payments in this case plus interest at the rate of 8% per annum beginning on the date of receipt of their payment. Therefore, the full amount of the Eversource funds in question (now estimated at \$14.7 million and growing) must be treated as a liability for the City and must remain reserved in the Overlay account until the appeal is adjudicated.

Additionally, the Overlay account must include reserves to cover any potential liabilities for all other property owners contesting their values, real estate and personal property receivables, the City's tax relief programs, as well as the 2023 abatement filings.

We hope eventually to be able to move dollars from Overlay to Free Cash and then to use them for one-time expenditures. Overlay Funds cannot be counted on at this point, especially for ongoing expenses. When available, they shouldn't be used for ongoing budgetary expenses like school and park budgets or bonding costs over 30 years. Using Overlay Funds for ongoing expenses would be in direct conflict with the City's Financial Management Guidelines.

To see answers to more questions like this, please click [here](#). To hear directly from Maureen Lemieux, our Chief Financial Officer, on these very topics please click [here](#).

**New Growth** - Some people are suggesting that there is a lot of additional revenue in the very near term that the City of Newton can expect. They suggest that we are in an era of unprecedented growth, with millions of dollars in building permit fees and new annual recurring property tax revenue on the way. There will be new development in the coming years, but the exact amount is far from certain (e.g., Riverside and Dunstan East are both on hold). More importantly, the City has already made revenue projections that include "most likely case" scenarios for development and has included them in the City's budget planning.

Over the last 10 years, the City's average annual increase in property tax revenue from new growth (a.k.a., new development) has been 1.68%. This does represent the historical high point of new growth in the City. The 20-year average from new growth is 1.46%, and the 30-year average is 1.23%. New Growth figures vary from year to year and was only 1.44% in FY23. For reference, over the last 10 years the average annual new growth for Watertown was 3.84%, for Needham 3.23%, and for Waltham 2.5%.

Taking into account the expected new tax revenues resulting from the projects currently approved in the City, including the Northland and Riverside projects, the City's Long-Range Financial Plan and Financial Forecast (which you can [read here](#)) project a new growth rate over the next 10 years of:

FY24: 1.5%,  
FY25-FY26: 1.55%  
FY27 – FY29: 1.65%  
FY30 – FY33: 1.45%

Notably, this is less new growth that we have seen over the last 10 years.

The timing, and even the eventuality, of seeing many of the units currently approved in Newton has been threatened by climbing construction costs, higher interest rates, and weakness in the regional development landscape. Due to these difficulties, both Riverside and Dunstan East have been stalled. Northland is proceeding with demolition and site work but has not yet applied for a permit for construction.

Even if the currently approved projects go forward, the City should only expect a modest amount of new growth, in line with the historical trends here in Newton and behind some of our neighbors.